

**Remarks by
G. EDWARD LEARY
Utah Commissioner of Financial Institutions
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IF YOU ARE GOING TO DO IT IN UTAH, DO IT RIGHT!

Good morning. As always, it is a delight to attend the Utah Association of Financial Services Convention. Thank you for extending an invitation.

What an extraordinary year we have lived through. As I was preparing this talk, I looked at my comments of last year delivered on September 7, 2001 only four days before September 11, 2001. I know that attack on America will be etched in our minds forever.

To introduce my topic today, I would like to read a quote from the July 2002, READERS DIGEST Section entitled Our America. I hope it is appropriate to use in this setting. I feel it best illustrates and demonstrates in a very real way, my focus.

President's Bush's National Security Advisor, Condoleeza Rice wrote: "I was born in segregated Birmingham, Alabama, to parents who, despite the circumstances, saw no limits for their little girl. My family could not go into a Woolworth in 1954, the year I was born, and have a hamburger. Yet they convinced me that though I might not be able to get a burger at Woolworth, I could be President of the United States if I wanted to be. I chalk that up to terrific parenting.

Just before the Civil Rights Act was passed, when I was nine, our family decided to visit Washington, D.C. Driving up from Birmingham, we could not stay in a hotel until we got to Washington. Mother and Daddy took turns driving, and we slept in the car.

When we arrived there was a photographer - one of those tourist photographers - walking along, and he asked if we would like a picture. My parents positioned me in front of the White House gates, and the photographer took his snapshot.

My father says that I said: "I'm going to be in there one day."

I'm not sure I really meant that I was going to get a chance to work in the White House. I think it was just the musing of a child. Still, that photo exists - a little girl in front of the White House utterly convinced there is no limit to the horizons you can set for yourself."

There is no limit to the horizons you can set for yourself. I want to describe two illustrations of this concept. The first.

Last winter the world came to Salt Lake City. Who would have thought 20 years ago that a small city way out west in the United States at the foot of the Wasatch Mountains could ever hope to host a world event, let alone, the Olympics. Those of you who attended the Annual Meeting of the Conference of State Bank Supervisors (CSBS) last May in Salt Lake City, heard the state's Olympic Officer, Lane Beattie, describe how getting the Olympics to Salt Lake City started as a vision of a small group of people more than 20 years ago. This group said, "Why shouldn't Salt Lake City be able to host the Olympics? We have world class snow." Then they went to work and sold others on this dream. They put together a successful bid committee that won approval as the United States representative and finally as the Olympic city. This group then formed the organizing committee and convinced the world they

would be welcome here. The world was not only welcomed, but the world experienced world class games. As we now know, Salt Lake City not only staged the Olympic Winter Games, but in so doing, set a new standard of excellence. People liked what they saw, experienced and how they were treated despite the security concerns.

Utah's Governor, Mike Leavitt, has often remarked that the Olympic standard of excellence - that quality of performance - is what all Utah people, businesses, government and enterprises should strive for. His hope is that the Utah brand would be known for its quality.

In anticipation of the Olympic experience, Governor Leavitt wanted a Utah brand developed which was unveiled at the end of last year and was promoted through the games and since as:

Utah!
Where ideas connect

Since adoption, I have always envisioned modifying it to:

Utah!
Where financial services connect

Thus, begins the second illustration. Over the last fifteen years some of the most prominent companies in the United States and the world have come to Salt Lake City to establish an Industrial Loan Corporation (ILC) known in most cases as "Industrial Banks." Utah's vision of the industry was to advance and enhance the image of Utah and the state charter. We envisioned ourselves as a financial services center. We expect the best of all ILCs chartered in Utah.

I want to use one more Olympic illustration. Governor Leavitt has talked about the gold medal performance of an ice skater, Sarah Hughes. After winning the gold medal, she said that many skaters skate their entire life looking toward the performance of their life and never really obtain it. She skated the performance of her life in Salt Lake City for the Olympic Gold Medal. That is exactly what we are asking of Utah ILC's - the performance of their life.

Let me repeat part of an article printed in the "*Financial Times*" on August 17, 2001 captioned, Utah loophole draws the real big lenders INVESTMENT BANKS LESS SCRUTINY FOR CORPORATE LOANS: "*The US state of Utah hardly figures in anyone's list of a world financial capital, but it is growing in importance as global investment banks move toward more corporate lending. Morgan Stanley recently joined Merrill Lynch in using something called a Utah industrial loan corporation as a vehicle for increasing banking activities such as deposit gathering and making loans to companies.*"

Even if used in a negative tone, the statement is "...Utah hardly figures in anyone's list of a world financial capital, but it is growing in importance . . ."

Much has been written about the start of this industry in Utah. I have stated before that this industry started somewhat by design and somewhat by happenstance. As a regulator involved in the process for the last twenty-five years, it has been challenging and exciting. The Utah ILCs have fostered improvements and diversification of financial products and services to a nationwide audience.

Why is the ILC charter appealing to national and international firms? Because in the closely watched and debated issue of merging "Commerce and Banking" the ILC charter is one of the few charter options remaining to those companies that do not want to cease all non-banking related activities. ILCs enjoy a specific exemption to the definition of a "bank" under the Bank Holding Company Act granted in the Competitive Equality Banking Act of 1987. I want to emphasize the point. This is NOT a LOOPHOLE but a SPECIFIC GRANT OF EXEMPTION in federal

law. This exemption is available also to ILCs in the states of California, Colorado, Hawaii and Utah; however, most of the ILC activity in recent years has taken place in Utah. I am compelled to mention that last week California limited ILC charters to firms that qualify as a Financial Holding Company under the Gramm-Leach-Bliley Act of 1999.

What are the boundaries of the Utah ILC industry? It's clear to me in the range of activities and charters along the spectrum of merging "commerce and banking," the ILC charter is in the van. While I remain committed in my support of the Utah ILC charter and industry, that commitment should not be viewed as an endorsement for firms that want to conduct business in Utah in a reckless or wanton fashion. The Utah ILC industry is a controlled environment. If you or your firms, including parent company are not willing to play by the rules, don't come. If you are already here and want to lessen local management's control of the bank, plan on being put under supervisory scrutiny.

Utah has outlined a vision of becoming a financial services center where competitively priced financial services are available to all in a fully disclosed manner. Again, we expect the best corporate performance here in Utah.

REASONS FOR CHARTERING INDUSTRIAL LOAN CORPORATIONS

Let me repeat remarks that I made two years ago. "What is it that the State of Utah expects or desires when chartering a depository institution? That the institution will serve the credit needs of its citizens and provide a safe haven for deposits. One could argue that purpose is best accomplished by chartering and supporting local or community-based institutions. Yes, but Utah has also been well served by operations and branches of large national banks within our state. A second purpose is to provide for economic development in terms of number of jobs and the vitality of commerce within the state. I submit that the Utah ILC industry responds to all of those objectives by helping meet the credit needs of Utahns, providing a safe haven for deposits, providing community redevelopment funds primarily in the area of low income housing and finally aiding in Utah's economic development. The ILCs provide unheralded prosperity for the state with the industry establishing a larger presence and impact each year."

INDUSTRIAL LOAN CORPORATIONS

I have passed out a handout that is a summary of the June 30, 2002 call report listing total assets and applications pending of all Utah ILCs. As you will note, the state is currently processing two applications for a de novo charter and one application for reactivation of a charter.

The following additional information may be of interest concerning the 24 Utah-chartered ILCs:

- 21 - are or have a parent company listed on the NYSE.
- 16 - are Case Managed by the FDIC out of the San Francisco Regional Office.
- 14 - have transaction account authority (2 grandfathered authority).
- 12 - have some type of credit card product.
- 11 - have an affiliate insured institution.
- 9 - have been in business less than three years.
- 6 - are Case Managed by the FDIC out of the New York Regional Office.
- 1 - is Case Managed by the FDIC out of the Atlanta Regional Office.
- 1 - is Case Managed by the FDIC out of the Kansas City Regional Office.

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| | The largest is | \$62 billion in total assets. |
| | The next largest is | \$15 billion in total assets. |
| 5 - | are between | \$1-3 billion in total assets. |
| 17 - | are less than | \$1 billion in total assets. |

MY CONCERNS

Management Autonomy and Control:

This is a Utah issue! This remains our primary concern. I specifically include the board of directors within the term management. The lack of autonomy from the corporate parent and/or affiliates is a problem that has been around since the beginning of the current iteration of the ILC industry. The first round of regulatory actions in the late 1980s and early 1990s was largely based upon lack of management control at the insured entity level.

The requirement that a majority of ILC directors be outside unaffiliated was spawned during this period in response to, and in an attempt to provide a check and balance to the unsafe conditions and practices that were being followed by some.

What do the regulators want? We want autonomous management - not window dressing. This is fundamental to all other considerations. Regulators can tell after working in the institution if management is really in control. We want a management team that is autonomous from the larger corporation; that acts at all times in the best interest of the bank; that demands accurate, reliable accounting records on-site upon which to base their decisions; that retains the credit underwriting policy and decision-making authority; that ensures all transactions with the parent corporation or affiliates passes the strictest arms-length scrutiny and that has sufficient personnel and resources to carry-out management decisions and audit for compliance with those decisions. We want a board of directors comprising competent people of integrity. The board members must be active and provide direction and supervision to management.

My personal observation is that almost all ILC management teams want to do it right. **The real issue is whether the holding company or parent will authorize and allow the ILC management team to conduct their business appropriately. To do it right!**

In the case of ILCs, higher prudential standards and more regulatory attention to problems are part of the lessons learned. There must be a balance struck between the institution's ability to innovate and develop profitable products and services and regulators charge to ensure safety and soundness.

What does it mean to do it right?

While I have been sympathetic to companies plea that we not require duplication of existing divisions or activities in the bank at some point that begs the question. **Can the Utah ILC survive on its own, even without the parent company? I want every board of directors with a parent company to answer that question and record their discussion in the board minutes.**

An aspect that has been lacking is training for directors - Last month, the Conference of State Bank Supervisors offered director training. I will work to obtain more training opportunities for directors. Management's challenge is to ensure that directors, especially the outside directors - receive training in their responsibilities and duties - so that they can enhance the performance of the institution.

In summary, I want to make this clear. The lack of management autonomy and control exists today. Lack of management autonomy and control was largely the basis for current supervisory actions, and remains an issue in all problems that have surfaced. Where troubles have occurred, it has occurred where companies are not committed to doing it right. Thus, the theme of this talk.

**IF YOU ARE GOING TO DO IT (CHARTER AN ILC) IN UTAH.
DO IT RIGHT!**

We want companies that are passionate about doing it right in Utah.

Yes, I know that the current corporate mantra is to be agile, respond to market changes quickly, take advantages of small openings. However, banking requires establishing policies and procedures **BEFORE** commencing the activity and walking down the path before you run into unanticipated or uncontrolled risks. My experience has been that in many instances, the answer is that it can be done in the bank, it just has to be done right, by first establishing policy and procedures, then moving ahead slowly in a controlled fashion. I am concerned with ILCs that have understood this concept but are now attempting to cut corners to the point that the department is questioning their commitment to doing it right.

Why is this so critical? Because not like other activity, the bank is funded through taking the public's money in the form of deposits. There is a fiduciary responsibility once you are using somebody else's money. There is also the federal safety net.

CONGRESSIONAL

My next concern is the Congressional scrutiny the ILC industry is experiencing. We attempt to keep in close contact with our Congressional delegation, especially Sen. Bennett on the Senate Banking Committee. We are sensitive to Congressional agendas that might affect the Utah ILCs.

The department's challenge is to protect and preserve the Utah ILC charter option.

As a result of the growth in number and size of the Utah ILC industry it was unavoidable that Congress became aware of what we are doing.

My sense is that the Congressional spotlight will not go away soon. Vigilance and prudence are the order of the day for the state and the industry. We will have to watch events in Washington very carefully.

REGULATORY

Finally, the Washington, D.C. based Federal Reserve and FDIC are also watching the industry very closely. The Federal Reserve is making its concerns that the ILCs are not subject to their umbrella supervision known.

The FDIC is closely reviewing all existing ILCs and analyzing all new applications more than ever before. The department is committed to fighting those in Washington, D.C., whether regulators or elected representatives that seek to eliminate or restrict the ILC charter option, but any perception of an uncontrolled ILC industry in Utah makes that battle impossible to win.

The Federal Reserve's position is that ILC's should be frozen in place with 1987 powers and authorities. Any subsequent advances or liberalization of banking services or product delivery channels provided to commercial banks should not be available to ILCs. For example, the Federal Reserve in Congressional testimony supported eliminating state de novo branching restrictions for commercial banks but not for ILCs.

I have many other concerns but let these stand as the most important. I appreciate this industry and its commitment to Utah. I want to express my appreciation for your support of myself and the department. This has been a great industry to regulate I want to keep it that way. Our efforts should be united in protecting and preserving the Utah ILC charter option. Your commitment to doing it right in Utah will ensure we both have a profitable and beneficial future.

Let me conclude with another quote from the July 2002. READERS DIGEST Section entitled Our America. It is a very moving story demonstrating why we remain the greatest country in the world. It is the desire of our people to be free.

Senator John McCain said . . . "Toward the end of the war, the Vietnamese guards who held us as prisoners of war allowed us to receive modest Red Cross packages that included articles of clothing. Mike Christian, a small-town Alabama kid who enlisted in the Navy when he was 17, fashioned a needle out of bamboo, took red and white scraps of cloth from the packages and sewed an American flag onto the inside of his blue prisoner's shirt.

Every afternoon, before we ate our soup, we would hang Mike's flag on the wall of our cell and together we'd recite the Pledge of Allegiance. No other event of the day had as much meaning for us.

One afternoon, the guards discovered Mike's flag and confiscated it. That evening, they came back. As punishment for us as much as him, they beat him severely just outside our cell, puncturing his eardrum and breaking several of his ribs. When they finished with him, they dragged him bleeding and nearly senseless back into our cell.

We helped Mike crawl to his place on the sleeping platform, and cleaned him up as best we could. Then we settled down to try to sleep.

As I was drifting off, I happened to look toward a corner of the room lit by one of the four bulbs that always stayed on. There in the dim light was Mike Christian. He had crawled there after he thought we had all fallen asleep. With eyes nearly swollen shut from the beating, he picked up his needle and thread and began sewing a new flag."

Thank You!